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Allan G. Andrews, C.A.
Metropolitan Auditor

GRAY COACH LINES, LIMITED

Report on the audit of the books and accounts
for the year ended

December 31, 1983

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

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Allan G. Andrews, C.A., *Metropolitan Auditor*

April 30, 1984

The Chairman and Board of Directors
Gray Coach Lines, Limited

I have examined the 1983 consolidated financial statements of Gray Coach Lines, Limited and reported thereon to the shareholder of the Company. Copies of the financial statements, together with my related opinion, are attached at the end of this report.

The comments of this report are intended to give the Board some greater detail on the fiscal operations of the Company than is contained in the financial statements. Since Gray Coach Lines, Limited is wholly owned by the Toronto Transit Commission and because of the relationship of the Commission to the Municipality of Metropolitan Toronto, the comments are also framed to give members of the Metropolitan Council an independent overview of the financial operations of the Company.

The Company provides a variety of city and inter-urban transportation services separate from but complementary to the operations of the Toronto Transit Commission. Incorporated in 1927, all its capital stock was acquired by the Toronto Transportation Commission, the predecessor of the Toronto Transit Commission - ownership being vested in the latter organization on its formation in 1954. The operations of Gray Coach Lines were commenced with equipment transferred to it from the Transportation Commission.

In addition to the routes taken over on inception and the route assumed from Niagara Coach Corporation, the transportation facilities of Gray Coach Lines have been expanded over the years to provide regular coach service over franchised routes to other cities, charters, special services and sight-seeing tours.

On January 22, 1979, the Company incorporated a wholly-owned subsidiary, Gray Coach Travel, Inc., to operate a retail travel agency and conducted tour business. The financial statements on which I am reporting reflect the consolidated operations of Gray Coach Lines, Limited and Gray Coach Travel, Inc. Details of the operations of Gray Coach Travel are set out on page 24.

Scope of Audit

The Toronto Transit Commission, as the sole shareholder of Gray Coach Lines, Limited, has for a number of years appointed the firm of Price Waterhouse & Co., Chartered Accountants, to audit the accounts of Gray Coach Lines, Limited. In addition, the internal audit department of the commission performs certain verification procedures for Gray Coach.

My audit, which is required by the provisions of Section 22(1) of The Municipality of Metropolitan Toronto Act, has for 1983 been co-ordinated with that of Price Waterhouse and Co. Both the interim and year end phases of the audit were jointly planned and executed. Specific audit areas were allocated to each audit team, although all working papers were reviewed by both parties. This has enabled both Price Waterhouse and myself to rely on the work performed by the other to the extent appropriate, considering that each of us must issue an independent audit opinion.

This approach has been successful and it is expected to continue in the future. It is the intent to rotate primary responsibilities for each audit area.

Operations for 1983

Operating revenue of the Company, excluding investment income, increased by $2,920,000 over the 1982 figure. The increase of $2,553,000 in operating expenditures was only slightly less. As a result, net operating income increased to $1,434,000 from a 1982 figure of $1,067,000.

Investment income contributed a further $936,000 to net earnings ($261,000 less than in 1982). A profit on disposal of capital assets of $416,000 was also realized during the year. In aggregate the Company realized net earnings of $2,375,000 (1982 - $2,190,000) after income taxes.

REVENUE

A comparison of 1983 and 1982 revenue is as follows:

	1983	1982 (in thousands)	Variance	Variance %
Passenger services, including contracted routes	$39,703	$36,666	$(3,037)	(8.3)
Parcel express	1,425	1,462	37	2.5
Commissions earned and other station revenue	3,691	3,582	(109)	(3.0)
Rental of equipment and buildings	851	804	(47)	(5.8)
Investment income	936	1,197	261	21.8
Other revenue	339	575	236	41.0
	$46,945	$44,286	$(2,659)	(6.0)

PASSENGER SERVICES, INCLUDING CONTRACTED ROUTES

Passenger services revenue for 1983 increased over 1982 by $3,037,000. This increase is summarized below:

	1983	1982 (in thousands)	Variance	Variance %
Inter-urban services and contracted routes	$29,912	$28,565	$(1,347)	(4.7)
Chartered coach services	3,004	3,420	416	12.2
Sightseeing tours	1,290	1,642	352	21.4
Airport express	3,885	1,403	(2,482)	(176.9)
Racetrack specials	196	282	86	30.5
Conducted tours and hotel packages	1,349	1,299	(50)	(3.8)
Other special services	67	55	(12)	(21.8)
	$39,703	$36,666	$(3,037)	(8.3)

Revenue on inter-urban services is derived from tickets sold for transportation over the Company's regular franchised route. In 1983, revenue from regular route inter-urban services increased $163,000 mainly as a result of fare increases on some routes, offset to some degree by the impact of a decrease of 5.5% in the number of passengers carried. Fares had generally increased by 5% effective December 15, 1982, with a further increase of 4% effective June 1, 1983 applied selectively on some routes due to increased competition.

The Toronto Area Transit Operating Authority (TATOA) and Gray Coach Lines, Limited, are parties to an agreement, for the period January 1, 1982 to December 31, 1983, to provide services for, or to integrate with, the GO-Transit system for specified routes. The agreement has tentatively been extended to December 31, 1984 while final financial agreements are being negotiated. Under the current agreement, TATOA provides most of the coaches and Gray Coach Lines operates them and recovers the costs of operation plus an administrative and management fee. This fee is included with the contracted route revenue.

Revenue from TATOA contracted routes increased in 1983 by $1,183,000. This increase is due mainly to the higher service level provided to TATOA. These costs which are recoverable under the Go-Transit agreement increased as a result of higher mileage and higher labour related costs. An increase of 3.1% in the number of passengers using the GO-Transit system also contributed to this additional revenue.

The chartered coach services are those extending outside the Metropolitan Area. (Those wholly inside the Area are accounted for in the books of the Toronto Transit Commission). The decrease in revenue mainly reflects the impact of the cancellation of many ski charters, due to favourable ski conditions in the local area, resulting in a 23.9% decrease in route mileage and 2.0% decrease in passengers carried. This was offset by fare increases of 16% effective May 2, 1982 and 7% effective May 1, 1983.

All regular sightseeing tours are considered business of the Company, including any which fall in whole or in part within the Metropolitan Area. The number of passengers carried on sightseeing route mileage dropped by 25% due to competition from another Toronto tour operator, City Tours. Gray Coach has been successful in legal actions taken in respect of this competition but the matter has now gone to the Ontario Court of Appeal and both parties are awaiting a court date. In the meantime, City Tours has ceased operations. This decline in passengers, offset in part by an 11% fare increase, resulted in a decrease of tour revenue of $350,000.

Airport express revenue increased by $2,482,000 over 1982, mainly due to the introduction of two additional airport services, one operating from the downtown hotels to Pearson International and the second providing service to the Buffalo airport.

Racetrack specials have decreased as the new inter-track betting system has enabled bets to be placed at a local track without actual travel to the out of town racetrack.

The increase of $50,000 in conducted tours and hotel packages reflects an increase in sales of Gray Coach Travel Inc., a wholly owned subsidiary. This subsidiary started operations on April 1, 1979, and had taken over the conducted tour business initiated in prior years by Gray Coach Lines. The travel bureau operating at the Bay Street terminal continues to function as a retail agent mainly during the summer months, with some limited business during the winter months.

PARCEL EXPRESS

Parcel Express revenue decreased in 1983 from 1982 by $37,000, as summarized below:

	1983	1982	Variance	
		(in thousands)		%
General parcel express revenue	$1,359	$1,392	$ 33	2.4
Revenue from carrying newspapers	66	70	4	5.7
	$1,425	$1,462	$ 37	2.5

The decrease in revenue is mainly due to competition from private couriers. There was no rate change in 1983 or 1982.

COMMISSIONS EARNED AND OTHER STATION REVENUE

This revenue is made up as follows:

	1983	1982	Variance	
		(in thousands)		%
Commissions				
Commissions earned on sale of interline tickets	$ 496	$ 314	$(182)	(58.0)
Commissions earned on sale of other companies' tickets	2,320	2,382	62	2.6
Commissions earned on parcel express	535	526	(9)	(1.7)
Total Commission earned	3,351	3,222	(129)	(4.0)
Other Station Revenue				
Revenue from coin-operated services at stations, including public telephones	42	42		
Revenue from baggage checking facilities at Company-owned terminals	90	95	5	5.3
Exchange on sale of interline tickets and tours	305	309	4	1.3
Foreign exchange paid	(97)	(86)	11	12.8
Total Other Station Revenue	340	360	20	5.6
	$ 3,691	$ 3,582	$(109)	(3.0)

Commissions Earned in 1983 showed an increase of $129,000 over 1982 largely as a result of general fare increases on other companies' routes and an increase in the parcel express commission rate for one company.

In addition, special excursion fares were offered by the National Bus Tour Association. Commissions were calculated on the basis of miles rather than based on fare, which resulted in higher interline commission revenues.

RENTAL OF EQUIPMENT AND BUILDINGS

This is made up as follows:

	1983	1982	Variance	
		(in thousands)		%
Rental of equipment:				
To Toronto Transit Commission	$ 2	$ 1	$ (1)	(100.0)
To other coach companies	645	573	(72)	(12.6)
GO Transit	33	39	6	15.4
Total Equipment Rental Revenue	680	613	(67)	(10.9)
Rental of Buildings and Properties:				
Storage charges for overnight use of terminals	12	38	26	68.4
Area rental and concessions at terminals and garages	154	148	(6)	(4.1)
Other	5	5		
Total Building and Property Rental Revenue	171	191	20	10.5
	$ 851	$ 804	$ (47)	(5.8)

A number of bus companies, including Gray Coach Lines, have agreements whereby they use each other's coaches on a reciprocal arrangement. The amount of $645,000 above represents the estimated revenue based on mileage received by Gray Coach Lines for such use. Gray Coach Lines in turn has used other companies' coaches and has recorded the estimated cost of such rental (1983 - $597,000, 1982 - $583,000) in "Materials, Services and Supplies".

INVESTMENT INCOME

Investment income is made up as follows:

	1983	1982 (in thousands)	Variance	Variance %
Interest on term deposits	$ 862	$ 1,100	$ 238	21.6
Bank and other interest	74	97	23	23.7
	$ 936	$ 1,197	$ 261	21.8

Interest rates in 1983 ranged from 9.25% to 12.25% (1982 - 10.40% to 18.00%).

OTHER REVENUE

The breakdown of other revenue is as follows:

	1983	1982 (in thousands)	Variance	Variance %
Estimate of interline tickets outstanding which will not be claimed	$ 59	$ 53	$ (6)	(11.3)
Overhead charge on Job Orders, mainly on coach service and repair for other coach companies	237	478	241	50.4
Other	43	44	1	2.3
	$ 339	$ 575	$ 236	41.0

The decrease in coach servicing is mainly due to the fact that Greyhound Lines opened their own garage in October 1982.

EXPENSES

Operating expenses for 1983 and 1982 are compared in the following table:

	1983	1982 (in thousands)	Variance	Variance %
Wages, salaries and other employee costs	$28,876	$26,963	$ 1,913	7.1
Materials, services and supplies other than the items shown below	8,836	8,728	108	1.2
Automotive fuel, including taxes	2,573	2,536	37	1.5
Commissions paid	2,365	2,113	252	11.9
Municipal taxes and provincial licences	578	549	29	5.3
Public liability costs	315	300	15	5.0
Depreciation	1,032	833	199	23.9
	$44,575	$42,022	$ 2,553	6.1

WAGES, SALARIES AND OTHER EMPLOYEE COSTS

These expenses are analyzed as set out below:

	1983	1982	Variance	
		(in thousands)		%
Plant Department	$ 438	$ 418	$ 20	4.8
Equipment Department	3,236	3,040	196	6.4
Operations Department	19,183	18,083	1,100	6.1
Administration Division	2,315	2,175	140	6.4
Total Wages and Salaries	25,172	23,716	1,456	6.1
Fringe Benefits	3,704	3,247	457	14.1
Total Wages, Salaries and Fringe Benefits	$28,876	$26,963	$ 1,913	7.1

Gray Coach Lines personnel are employees of the Toronto Transit Commission. The Company is charged by the Commission for all the applicable costs for wages, salaries and fringe benefits incurred on their behalf.

In 1983, the number of union and non-union employees working for the Company was 726 compared to 731 in 1982, including temporary employees. The decline of 5 staff members was due mainly to the attrition of clerical employees in the operations and administrative divisions.

The total wages, salaries and fringe benefits for 1983 represent approximately 64.8% of the total expenses compared to 64.2% in 1982.

The increase in the total employee costs is mainly due to increases in wage rates and pension contributions provided for under the terms of the 1982 and 1983 union contracts and to increases in rates for government and private insurance plans. The union contract which was effective July 1, 1983, was subject to the Provincial Restraint legislation.

MATERIALS, SERVICES AND SUPPLIES

This classification represents approximately 20% (1982 - 21%) of the operating expenses, and contains the following:

	1983	1982	Variance	
		(in thousands)		%
Plant Department, including Way, Electrical and Building Sections - regular expenses and special maintenance	$ 869	$ 874	$ (5)	(0.6)
Equipment Department - maintenance of vehicles	2,634	2,805	(171)	(6.1)
Operations Department - mainly expenses re stations, meals and lodgings for drivers out of town, tolls and advertising	1,320	1,302	18	1.4
Purchase of tour and hotel packages and charter costs	688	675	13	1.9
Insurance, other than for excess liability on coaches	21	38	(17)	(44.7)
Administration and general expenses	2,332	2,050	282	13.8
Cost of equipment rentals	742	746	(4)	(0.5)
Cost of other operating rents	192	175	17	9.7
Costs of joint facility rents	9	8	1	12.5
Province of Ontario Corporation Tax	29	55	(26)	(47.3)
	$ 8,836	$ 8,728	$ 108	1.2

The decrease in the Equipment Department was mainly due to a reduction in the size of the fleet (a net reduction of 2 and 20 in 1983 and 1982, respectively). As a result, the existing coaches are in much better condition than in the past and require less repairs. There were no major repairs to coaches in 1983.

Administration and general expenses increased as a result of increased marketing costs to promote new services and an increase in the administration and management fee charged by TTC.

AUTOMOTIVE FUEL, INCLUDING TAXES - $2,573,000 (1982 - $2,536,000)

Fuel prices increased in 1983 an average of 0.64¢ per litre or 1.8%. Fuel taxes included in the above costs amounted to $643,000 in 1983 compared to $615,000 in 1982.

COMMISSIONS PAID - $2,365,000 (1982 - $2,113,000)

Included in this expense are commissions and allowances paid to agents and others on ticket sales and parcel express. The increase of $252,000 resulted mainly from commissions paid to another bus company for the airport service to Buffalo introduced in 1983, and to increased Gray Coach Lines tariffs.

MUNICIPAL TAXES AND PROVINCIAL LICENCES

Included in the total expense in this category were the following payments:

	1983	1982
	(in thousands)	
Road Use Tax	$ 2	$ 1
Province of Ontario	64	75
Municipal and other governments	512	473
	$ 578	$ 549

The decrease in Provincial licences is due to the reduction in the fleet of coaches.

PUBLIC LIABILITY COSTS

The amount is made up as follows:

	1983	1982
	(in thousands)	
Expense for self insurance	$ 235	$ 228
Excess liability insurance	80	72
	$ 315	$ 300

The company acts as a self-insurer for claims up to $250,000 and carries excess liability insurance for amounts in excess of $250,000, for a total aggregate coverage of $20,000,000.

DEPRECIATION - $1,032,000 (1982 - $833,000)

During 1983, the Corporation purchased 10 new motor coaches, a telephone system, and made additions to the Toronto garage building and other assets costing $2,771,000 as indicated on page 19. These capital assets are depreciated on a straight-line basis over their estimated useful life. Hence, in a year of major capital expenditure, the total depreciation charge will increase. The method of calculating depreciation is described on page 20.

PROFIT ON DISPOSAL OF CAPITAL ASSETS - $416,000 (1982 - $256,000)

The profit in 1983 resulted from the sale of 12 coaches and 1 automobile.

PROVISION FOR ONTARIO INCOME TAXES - $411,000 (1982 - $330,000)

Under the Canadian Income Tax Act, a corporation that is owned by a province or municipality is exempt from federal income taxes. This exemption does not automatically apply to provincial income taxes.

BALANCE SHEET

CASH - $802,000 (1982 - $641,000)

Cash includes an amount of $690,000 (1982 - $525,000) representing cash receipts held in the office of the company or held in trust by the ticket selling agencies or employees as at December 31, 1983, and which have been deposited in the bank subsequent to the year end.

SHORT TERM INVESTMENTS AND INTEREST-BEARING DEPOSITS

Short term investments are made up as follows:

	1983	1982
	(in thousands)	
Short term deposits	$ 403	$ 4,822
Term deposits	9,500	5,500
Mortgage and bonds receivable	75	
	9,978	10,322
Less: Held for replacement of terminals	5,500	5,000
Held for public liability and workers' accident compensation	1,000	1,000
	6,500	6,000
	$ 3,478	$ 4,322

I comment further on the funds held for replacement of terminals and and public liability and workers' accident compensation on page 17.

Short term deposit consist of deposits with banks and include $132,000 in a U.S. dollar bank account. This amount has been translated into Canadian dollars using the exchange rate in effect as at December 31, 1983.

ACCOUNTS RECEIVABLE

The accounts receivable are made up as follows:

	1983	1982
	(in thousands)	
Toronto Area Transit Operating Authority	$ 723	$ 691
Trade receivables	218	453
Accrued interest receivable	370	50
Other	265	274
	$ 1,576	$ 1,468

As of the date of my examination, the majority of these accounts have been collected.

Included in the accounts receivable is an allowance for doubtful accounts of $71,000.

WORKING FUNDS AND PREPAID EXPENSES

This amount comprises:

	1983	1982
	(in thousands)	
Working funds advanced	$ 99	$ 88
Prepaid insurance	40	41
Fuel inventory	95	100
Prepaid advertising	2	2
Prepaid rent and miscellaneous items	5	4
	$ 241	$ 235

TERM INVESTMENTS HELD FOR REPLACEMENT OF TERMINALS $5,500,000 (1982 - $5,000,000)

An analysis of these investments is set out on page 16 and I comment on the related reserve on page 23.

TERM INVESTMENTS HELD FOR PUBLIC LIABILITY AND WORKERS' ACCIDENT COMPENSATION $1,000,000 (1982 - $1,000,000)

These investments are held to fund the provision for public liability and workers' accident compensation.

CAPITAL ASSETS

Capital assets comprise the following:

	Cost	Accumulated Depreciation	Net Book Value 1983	Net Book Value 1982
		(in thousands)		
Land	$ 2,505		$ 2,505	$ 2,505
Improvements to leasehold properties	527	258	269	292
Signals and communications	332	45	287	6
Structures	5,298	1,991	3,307	3,302
Coaches	15,043	7,720	7,323	6,095
Fare registers for coaches	10	7	3	4
Service cars	135	88	47	62
Furniture and office equipment (including station registers and imprinters)	487	294	193	154
Air conditioning on coaches	258	36	222	
Air conditioning in structures	54	49	5	7
Shop equipment	589	141	448	470
Signs	63	9	54	27
	25,301	10,638	14,663	12,924
Add: Construction in progress	93		93	98
	$25,394	$10,638	$14,756	$13,022

The changes in the capital assets account during the year can be summarized as follows (in thousands):

Balance, January 1, 1983		$23,458
Add:		
Additions in 1983 -		
- Coaches	$ 2,177	
- Signals and communications	313	
- Garage building	161	
- Furniture and equipment	71	
- Signs	33	
- Service vehicle	10	
- Shop equipment	4	
- Leasehold improvements	2	2,771
		26,229
Deduct:		
Retirements in 1983 -		
- Coaches	820	
- C.N.E. Loop	5	
- Service vehicles	5	830
		25,399
Construction in progress		
- Net decrease		5
Balance, December 31, 1983		$25,394

The accumulated depreciation account for the year is as follows (in thousands):

Balance, January 1, 1983	$10,436
Add:	
Depreciation provided for in 1983 by a charge to earnings	1,032
	11,468
Less:	
Accumulated depreciation on capital assets retired	830
Balance, December 31, 1983	$10,638

Depreciation on terminals, garages and other equipment is provided on a straight-line basis over their estimated useful life, ranging from 5 to 30 years. Depreciation on motor coaches is provided on a straight-line basis over 12 years with a residual value of 15% of original cost.

On retirement of an asset which has been charged to capital assets, profit or loss on disposal is calculated as the excess or deficiency of proceeds compared with the depreciated cost (net book value) of the asset at the end of the previous year.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable are summarized as follows:

	1983	1982
	(in thousands)	
Estimated liability on interline tickets sold and not yet redeemed	$ 449	$ 516
Other	$ 1,068	1,132
	$ 1,517	$ 1,648

TORONTO TRANSIT COMMISSION - CURRENT ACCOUNT - $4,157,000 (1982 - $4,125,000)

This is the balance owing to the Commission exclusive of the Commission's ownership equity represented by the Company's capital stock and retained earnings. It is the result of regular intercompany transactions including charges for salaries, wages, maintenance of coaches, administration, etc.

DIVIDEND PAYABLE TO TORONTO TRANSIT COMMISSION - $700,000 (1982 - $700,000)

On December 8, 1983, the Board of Directors declared a dividend payable to the Toronto Transit Commission, as sole shareholder. The dividend was paid in January, 1984.

PROVISION FOR TICKETS HELD BY THE PUBLIC - $109,000
(1982 - $160,000)

This is an estimated liability for unredeemed inter-urban passenger, parcel express and airport express tickets. A similar provision with respect to interline tickets sold for passage over routes of other carriers is included under the caption "Accounts Payable and Accrued Liabilities" on page 21.

PROVISION FOR PUBLIC LIABILITY AND WORKERS' COMPENSATION - $1,000,000 (1982 - $1,000,000)

This provision is for known and potential workers' accident and public liability settlements. The Company has chosen to fully fund this provision and maintains term investments for this purpose, as indicated on page 17.

DEFERRED ONTARIO INCOME TAXES - $671,000 (1982 - $531,000)

This balance represents the taxes deferred primarily as a result of claiming for tax purposes capital cost allowances in excess of depreciation charged in the accounts.

CAPITAL STOCK - $1,000,000 (1982 - $1,000,000)

All shares are held by the Toronto Transit Commission except for 6 qualifying shares held by Directors of Gray Coach Lines, Limited.

RESERVE FOR REPLACEMENT OF TERMINALS

This reserve represents accumulated amounts appropriated from Retained Earnings by the Directors of the Company. The Company has chosen to fully fund this reserve and maintains term investments for this purpose, as indicated on page 17.

	1983	1982
	(in thousands)	
Balance, beginning of year	$ 5,000	$ 4,100
Add:		
Appropriation from retained earnings for future replacement of terminals	500	900
Balance, end of year	$ 5,500	$ 5,000

While expenditures on other capital assets have been made by the Company, such expenditures have not been charged to this reserve.

RETAINED EARNINGS

Further details are set out in the consolidated statement of Retained Earnings. Retained earnings include the deficit from Gray Coach Travel, Inc., of $17,000. Details of the revenue and expenses of this company are set out below.

Gray Coach Travel Inc.

	1983	1982
	(in thousands)	
Revenue:		
Tour revenue	$1,350	$1,299
Commissions earned and other revenue	84	101
	1,434	1,400
Expenses:		
Wages, salaries and other employee costs	122	90
Materials, services and supplies	1,162	1,063
Commissions paid	98	111
Depreciation	12	10
	1,394	1,274
Income from operations before income taxes and extraordinary items	40	126
Provision for Ontario Income Taxes		
Income before extraordinary item	5	19
	35	107
Extraordinary Item:		
Reduction of income taxes on application of prior year's losses	5	19
Net Income for the year	40	126
Deficit, beginning of year	(57)	(183)
Deficit end of year	$ (17)	$ (57)

I comment further on this company on page 6.

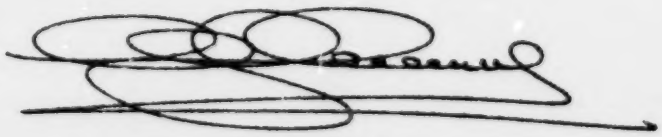
STATEMENT OF CHANGES IN FINANCIAL POSITION

This statement summarizes the funds provided from operations and other sources, as well as the application of these funds to non-current purposes and to the provision of working capital.

INSURANCE

The Company is self-insured up to $250,000 for public liability covering the passenger vehicles of the Company, and insurance for an additional $19,750,000 is covered by insurance policies. In addition, the Company has separate coverage for liability due to fire or explosion on vehicles.

In addition to employee fidelity insurance, coverage for theft is carried on owned automobiles, money, tickets and valuable documents.



METROPOLITAN AUDITOR

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Allan G. Andrews, C.A., *Metropolitan Auditor*

April 5, 1984

AUDITOR'S REPORT

To the Shareholder of
Gray Coach Lines, Limited

I have examined the consolidated balance sheet of Gray Coach Lines, Limited as at December 31, 1983 and the consolidated statements of revenue and expenses, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

GRAY COACH LINES, LIMITED

CONSOLIDATED BALANCE SHEET

	December 31 1983	1982
	(in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash	$ 802	$ 641
Short-term investments and interest-bearing deposits	3,478	4,322
Accounts receivable -		
Toronto Area Transit Operating Authority	723	691
Other, including accrued interest	853	777
Working funds and prepaid expenses	241	235
	6,097	6,666
TERM INVESTMENTS HELD FOR:		
Replacement of terminals	5,500	5,000
Public liability and workers' accident settlements	1,000	1,000
	6,500	6,000
CAPITAL ASSETS (note 3)	14,756	13,022
	$ 27,353	$ 25,688

(see accompanying notes)

GRAY COACH LINES, LIMITED

CONSOLIDATED BALANCE SHEET

	December 31	
	1983	1982
	(in thousands)	
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 1,517	$ 1,648
Toronto Transit Commission - current account	4,157	4,125
Dividend payable to Toronto Transit Commission	700	700
	6,374	6,473
PROVISION FOR:		
Tickets held by the public	109	160
Public liability and workers' accident compensation	1,000	1,000
Deferred Ontario income taxes	671	531
	1,780	1,691
CAPITAL STOCK AND RETAINED EARNINGS:		
Capital stock -		
Authorized and issued - 10,000 shares	1,000	1,000
Reserve for replacement of terminals	5,500	5,000
Retained earnings	12,699	11,524
	19,199	17,524
	$ 27,353	$ 25,688

(see accompanying notes)

APPROVED BY THE BOARD:

_____ DIRECTOR

_____ DIRECTOR

GRAY COACH LINES, LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1983	1982
	(in thousands)	
SOURCE OF FUNDS:		
Net earnings for the year	$ 2,375	$ 2,190
Add (deduct) items not affecting working capital -		
Depreciation	1,032	833
Provision for deferred Ontario income taxes	140	100
Profit on disposal of capital assets	(416)	(256)
Provision for tickets held by public	(51)	-
Working capital provided from operations	3,080	2,867
Proceeds on disposal of capital assets	416	550
	3,496	3,417
APPLICATION OF FUNDS:		
Additions to capital assets -		
Coaches	2,177	1,952
Other	589	135
Term investments designated for replacement of terminals	500	900
Dividend to Toronto Transit Commission	700	700
	3,966	3,687
Decrease in working capital	(470)	(270)
Working capital at beginning of year	193	463
Working capital (deficiency) at end of year	$ (277)	$ 193

(see accompanying notes)

GRAY COACH LINES, LIMITED

CONSOLIDATED STATEMENT OF REVENUE AND EXPENSES

	Year ended December 31	
	1983	1982
	(in thousands)	
REVENUE:		
Passenger services, including contracted routes (note 2)	$ 39,703	$ 36,666
Parcel express	1,425	1,462
Commissions earned and other station revenue	3,691	3,582
Rental of equipment and buildings	851	804
Investment income	936	1,197
Other revenue	339	575
	46,945	44,286
EXPENSES:		
Wages, salaries and other employee costs	28,876	26,963
Materials, services and supplies other than the items shown below	8,836	8,728
Automotive fuel, including taxes	2,573	2,536
Commissions paid	2,365	2,113
Municipal taxes and provincial licenses	578	549
Public liability costs	315	300
Depreciation	1,032	833
	44,575	42,022
Income before undernoted item	2,370	2,264
Profit on disposal of capital assets	416	256
Earnings before income taxes	2,786	2,520
Provision for Ontario income taxes	411	330
NET EARNINGS FOR THE YEAR	$ 2,375	$ 2,190

(see accompanying notes)

GRAY COACH LINES, LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	1983	1982
	(in thousands)	
Retained earnings at beginning of year	$ 11,524	$ 10,934
Net earnings for the year	2,375	2,190
	13,899	13,124
Appropriation to reserve for replacement of terminals	500	900
Dividend to Toronto Transit Commission	700	700
	1,200	1,600
Retained earnings at end of year	$ 12,699	$ 11,524

(see accompanying notes)

GRAY COACH LINES, LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1983

1. SUMMARY OF ACCOUNTING POLICIES:

The significant accounting policies are summarized below:

Consolidation

The consolidated financial statements include the accounts of Gray Coach Lines, Limited and its wholly-owned subsidiary company, Gray Coach Travel Inc.

Short-term and other investments

Short-term and other term investments are carried at cost which approximates market value.

Capital assets

Capital assets are carried at cost. Depreciation is provided on motor coaches on a straight-line basis over 12 years with a residual value of 15% of original cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the terminals, garages and other equipment, ranging generally from 5 to 30 years.

Contracted routes revenue

Contracted routes revenue includes gross amounts charged to Toronto Area Transit Operating Authority (TATOA) which are based on operating costs as defined in the "GO Transit" agreement (see Note 2).

2. "GO Transit" Agreement

A significant part of the company's operations is carried out under an agreement with TATOA. The company operates bus services on certain routes as part of the "GO TRANSIT" commuter system. TATOA provides most of the coaches used by Gray Coach Lines, Limited for these services. The current agreement is in effect to December 31, 1984.

3. Capital Assets

	December 31	
	1983	1982
	(in thousands)	
Land	$ 2,505	$ 2,505
Terminals and garages	5,298	5,137
Motor coaches	15,043	13,686
Other equipment	2,548	2,130
	25,394	23,458
Less: Accumulated depreciation	10,638	10,436
	$14,756	$13,022

4. Related Party Transactions

For purposes of administrative efficiency, the company's parent, the Toronto Transit Commission, employs all personnel and maintains all payroll records. The Commission has a contributory pension plan covering substantially all employees including those assigned to the company. The wages, salaries, fringe benefits, etc., of those Commission employees assigned to Gray Coach Lines, Limited are charged directly to the company. The company shares maintenance and other services with the Commission which charged $6,285,000 (1982 - $5,799,000) for rental of property and equipment, use of joint facilities and administrative services.

POOR

QUALITY

ORIGINAL